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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1996-1997

Comments of the Director-General on the Report of the External Auditor

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Introduction

1. The present document provides the Director-General's comments on the report of the External Auditor covering the period 1996-1997 (PBC.14/3-IDB.20/3). While many comments made on the draft version are reflected in the final report, the Director-General feels it necessary to make additional comments so that Member States are presented with a broader perspective on the audit findings. The Director-General, in presenting his views, would like to express his appreciation for the observations and recommendations made by the External Auditor and the constructive manner in which the audit was carried out.

I. GENERAL COMMENTS

2. The Director-General has found the External Auditor's report very useful in his efforts to transform the Organization. As reflected in the report, many actions have already been taken to implement the recommendations.

II. SPECIFIC COMMENTS

III. Budgetary, accounting and financial reporting procedures*

C. Regular budget unliquidated obligations (paras. 44-46)**

3. The Director-General is aware of the problem and fully concurs with the opinion of the External Auditor. Early this year, he initiated an exercise to reduce unliquidated obligations. So far, over $600,000 unnecessary obligations have been identified and liquidated. The exercise will be continued with more vigour and new procedures will be introduced.

D. Unliquidated obligations—UNDP operating fund (paras. 47-52)

4. As stated in paragraph 3 above, the Director-General will pay special attention to the timely liquidation of obligations and will introduce strict measures.

F. Recording contributions-in-kind (paras. 54-60)

5. The comments of the External Auditor do not fully reflect the actual situation in respect of the two specific cases described. In particular, the quotation attributed to the Director-General under paragraph 56 does not include an important sentence which formed part of his authority as follows: "I would appreciate it if, in accordance with the financial rules, you will submit such projects to me without delay with an appropriate advice."

6. In the subject cases, the Director, Financial Services, in a notation to a memorandum, had indicated agreement to the waiver of support costs. The Secretariat agrees with the view that the utilization of cost-free experts could indeed result in additional costs to the Organization for which support costs should be levied. However, the two specific cases referred to by the External Auditor do not require any additional administrative or other costs.

7. Finally, it is important to emphasize that the Secretariat has never suggested, nor intends to do so in the future, any general waiver of support costs.

IV. Cash management

B. Liquidity position (paras. 63-87)

8. The Director-General appreciates the analysis of the liquidity position provided by the External Auditor. As a result of various measures taken by the Director-General since December 1997 in containing expenditures, including those related to the staff separation exercise, the Organization expects to achieve a moderate but positive cash balance at the end of 1998 sufficient to cover outstanding obligations. The Director-General recognizes that restrictions on expenditures must take into account the need to provide resources for the important substantive and support activities of the Organization, including the maintenance of the Vienna International Centre (VIC), which is cost-shared with other organizations.

9. Improvements have been made to the Treasury systems for forecasting cash income and disbursements, but it must be stated that estimating cash flow in the light of uncertain cash income requires a high level of judgement based on previous experience.

10. An intensive effort has been made to improve the situation in respect of outstanding assessed contributions, particularly following the report of the open-ended discussion group on timely payment of assessed contributions, chaired by H.E. Mr. A. Benmoussa (Morocco), which developed concrete proposals in this respect.

V. Contracts and purchases

A. Post-facto requisition (paras. 88-89)

11. The Director-General shares the concerns expressed by the External Auditor regarding compliance with rules in the areas of contracts and purchases. Management actions recently taken in this area precisely address this problem.

VI. Publications

*Chapter titles refer to those in the report of the External Auditor (IDB.20/3-PBC.14/3).

**Paragraph numbers refer to paragraphs in the report of the External Auditor (IDB.20/3-PBC.14/3).

A. Publication strategy and Publications Board (paras. 91-92)

12. The Director-General has some reservations on the findings of the External Auditors. By referring merely to the findings of the "renewed investigation in early 1997", paragraph 92 deals with a period during which the position of the Secretary of the Board/Committee was filled only on an interim basis. This paragraph also ignores the many improvements to the management of the publications programme made in the months following the "renewed investigation in early 1997". It may be noted in this context that a policy of holding regular meetings twice a month was instituted at the sixth meeting of the Publications Committee on 13 March 1997, and this policy was adhered to, with only a few minor deviations from time to time, until the holding of the thirteenth meeting on 9 December 1997. All of these meetings were well attended.

13. No further meetings were held in 1998 following the suspension of the Publications Board and Committee on 9 January 1998. However, the Director-General has recognized the importance of having a sound publication strategy. It was for this reason that the responsibilities of the Special Assistant to the Director-General on Major Policy Issues specifically include "to develop a new UNIDO publications policy and strategy, both for printed and electronic publications and, in that context, to assume the chairmanship of a new cross-organizational team on publications (the successor body to the Publications Committee of UNIDO)." (UNIDO/DGB(O).82/Add.3 dated 23 June 1998).

B. Publications and C. Conclusions (paras. 93-100)

14. The former Public Information Section made a major effort to assess in advance the demand for its various printed products, and in almost all cases these projections have proven to be accurate. The French and Spanish versions of "UNIDO 1994: The Year in Review" represented the only significant exceptions to this general state of affairs. The technical difficulties encountered with the 1996 edition of the Global Report may be described as "teething troubles" associated with the implementation of the new external publication contracts, and did not recur in the case of the 1997 Report.

15. The improvements already implemented include regular monthly meetings of the Publications Committee from March 1997 onwards, the initiation of credit card sales, the preparation of a publications catalogue, etc.

16. The Director-General shares the concerns of the External Auditor, and he is carrying out a comprehensive review of the content, presentation and publication arrangements of the Global Report. Possible options include discontinuing temporarily the French and Spanish versions and a review of the publication agreement with Oxford University Press.

17. The need for an efficient supervision of contracts and cost accounting system for publications will be addressed in the future comprehensive publications policy and strategy to be developed by the Special Assistant to the Director-General on Major Policy Issues. The four substantive issues and recommendations raised in paragraph 100 will be taken into account in the development of the new publications policy and strategy by the Special Assistant to the Director-General on Major Policy Issues.

18. The Director-General is convinced that these measures will result in appropriate solutions to the valid concerns of the External Auditor.

VII. Common services

A. Buildings Management Service (paras. 102-108)

19. The Director-General appreciates the suggestions of the External Auditor that the memorandum of understanding on the cost sharing of Buildings Management Service be terminated and that all common services be centralized Obviously, such moves need to be undertaken within the framework of the reform of the United Nations system and for that, the support of Member States would be needed.

20. In the meantime, the Director-General intends to pursue the realistic course of action to further improve the cost efficiency of Buildings Management Service operations and simultaneously reopen negotiations with the executive Heads of other Vienna-based organizations, with the possibility of establishing centralized common services in future.

B. IAEA sharing of termination indemnity costs for Buildings Management staff (paras. 109-111)

21. The Director-General will continue efforts to settle the dispute with IAEA.

C. Catering Service (paras. 112-114)

22. The Director-General agrees with the recommendations of the External Auditor and will implement them in the course of the next bidding exercise later in 1998.

D. Removal within the VIC (paras. 115-117)

23. In a note verbale dated 14 July 1998, the Government of Austria informed the Secretariat, with regard to the audit report, that: "The Government of Austria neither had the intention nor made a promise to reimburse UNIDO for the costs for the actual removal and operating costs for the vacated area during the period September 1996 through March 1997. The respective information contained in the report is untrue and does not correspond to the facts. The correction of the wording is therefore urgently asked for."

VIII. Technical cooperation activities

B. UNIDO's field representation (paras. 127-133)

24. The Director-General is pleased to inform that, to a significant extent, the concerns expressed by the External Auditor regarding the delegation of authority to field offices have already been addressed. Director-General's Administrative Instruction No. 6 (13 May 1998) covers the new financial authorization system, and Director-General's Administrative Instruction No. 7 (14 May 1998) addresses the decentralization and delegation of authority to field offices. This and related information was provided to the Board at its nineteenth session (IDB.19/11 and summary records). Efforts will be continued to establish an effective field representation system as soon as possible.

C. Administration and management of UCD Offices (paras. 134-142)

25. The Director-General is convinced that the new organizational structure, which was based on the Business Plan, and a number of measures introduced in 1998 will address the concerns raised by the External Auditor.

D. Improvement of quality management (paras. 143-148)

26. It should be pointed out that, despite difficulties encountered, one team under the self-assessment exercise has continued its work, leading to the establishment of proposed UNIDO performance indicators. The results of these efforts are reflected in documentation to and emanating from the nineteenth session of the Board (IDB.19/6, IDB.19/CRP.2, and summary records). The Cross-Organizational Team on programme quality referred to in paragraph 146 issued a report in early May 1998, and work is going on to implement the recommendations.

IX. Information technology

A. Backlog of EDP application maintenance (paras. 149-157)

27. The Director-General has recently approved a short-term strategy to increase information technology support for the Organization. This strategy has a detailed plan on how to improve the financial systems, technical cooperation support systems and communication. The strategy also takes care of the "year 2000" problem and other maintenance issues. The Cross-Organizational Team on Management Information Service (EDP) established in early 1998 completed its task at the end of April, and, based on the recommendations, it is expected that by early 1999 significant improvement will be made in information technology of UNIDO.

X. Organizational matters

A. UNIDO's Geneva Office (paras. 158-177)

28. The Director-General considers that the main justification for the continued existence and operation of the UNIDO Office in Geneva must be viewed in the broader context of policy decisions taken by Member States with regard to the future role and functions of UNIDO as well as the overall strategy of the Director-General to bring UNIDO into closer working relationship with the rest of the United Nations system. Any recommendation with regard to the continued functioning of the Geneva Office must therefore be made on the basis of its **future role** rather than on previous circumstances that have largely been superseded by a new policy framework.

29. In decision IDB.17/Dec.2 (Business Plan on the Future Role and Functions of UNIDO) Member States called on UNIDO to "concentrate on those support functions in which the Organization has a comparative advantage over other multilateral development organizations". In response to this decision, the Director-General stressed during his inaugural statement the need to reduce "the overlapping and duplication of tasks and activities with other agencies in the Multilateral System and ... to integrate UNIDO more precisely in the United Nations System".

30. Accordingly, the Director-General has assigned priority to promoting closer cooperation with the United Nations in line with the ongoing reform programme being undertaken by the Secretary-General, with a view to maximizing organizational cost-effectiveness and efficiency and enhancing service delivery to Member States. In March 1998, the Director-General signed a new memorandum of understanding with the Secretary-General of the United Nation Conference on Trade and Development (UNCTAD) establishing a clear division of labour between the two organizations based on their respective comparative advantage. It should be stressed that the Geneva Office played a key role in preparing the groundwork for the conclusion of the memorandum of understanding. This is only one of the good examples to demonstrate the effectiveness of the Geneva Office in inter-agency matters. A similar agreement is now under active negotiation with the International Trade Centre (ITC). Furthermore, UNIDO is pursuing its interest in taking part in the follow-up to the High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development, and to contribute its expertise and experience to the Integrated Framework for Trade-Related Technical Assistance jointly with the World Trade Organization (WTO), the World Bank, the International Monetary Fund, UNCTAD, UNDP and ITC. The Geneva Office is also closely involved in following up with ITC and WTO, UNIDO's participation in the Integrated Framework for Trade-Related Technical Assistance for LDCs.

31. In addition, the Geneva Office is closely monitoring the ongoing discussions in the Committee on Trade and Environment on quality and standards that are expected to affect process and production methods in developing countries. The Geneva Office is serving as the main channel of communication between the Committee and UNIDO Headquarters.

32. Finally, as emphasized by the Geneva-based Permanent Missions to UNIDO, the Geneva Office is

indispensable to keeping them informed about relevant developments in UNIDO and serving as a point of contact between UNIDO Headquarters and their Missions. A majority of those Permanent Missions are from countries in Africa and the least developed countries (LDCs) that cannot afford to maintain a regular representation in Vienna. It should be noted that UNIDO has reaffirmed the priority it attaches to Africa and the LDCs. The closure of the Geneva Office will not only send a contrary signal, but will also deprive them of a regular channel of information and communication with the rest of the membership of UNIDO.

33. Given the essential role of the Geneva Office in the broader context of UNIDO's new policy and strategy, the Office, which has been downsized, should remain open. It should be added that under paragraph 11 of the memorandum of understanding between UNIDO and UNCTAD, both organizations have agreed to offer office space, common premises and the use of services at their respective headquarters on a reciprocal basis in order to achieve more economy.

34. The Director-General notes that the observations and findings of the External Auditor precede the decision taken by UNIDO Member States to pursue closer cooperation with the rest of the United Nations system as part of the UNIDO Business Plan. While scope exists to strengthen coordination between Headquarters and the Geneva Office and to address some of the observations made by the External Auditor, the recommendation to close the Office is not shared by the Director-General. Once again, any decision on the future of the Geneva Office must be made in the context of the new realities of a rapidly changing multilateral system of cooperation in which UNIDO must continue to play a major role if it is to survive and thrive. With the above in mind, the Director-General intends to propose a change in the programme and budgets, 1998-1999, as regards the status of the Geneva Office.

B. Committees in UNIDO (paras. 178-184)

35. The Director-General concurs with the External Auditor on the need to streamline UNIDO internal committees. Indeed, he has reduced the large number of committees (110 in 1995) to just five in early 1998.

XI. Personnel matters

C. Women in the Secretariat (paras. 191-198)

36. The Director-General is concerned about the level of representation of women in the Secretariat. The figures, however, need to be calculated on a common base, i.e. posts subject to geographical distribution.

37. As at 31 December 1995 and, as indicated in the Annual Report 1995 (IDB.16/10/Add.1, table 3(a)), the overall representation of women was 79 or 24.6 per cent Fifteen women occupied posts at the senior level (P-5 and above) resulting in a share of 13.2 per cent (not 11.9 per cent as reported by the External Auditor).

38. Similarly, as at 31 December 1996 and as indicated in the Annual Report 1996 (IDB.17/10/Add.1, table 3(a)), the overall representation of women was 23.1 per cent and not 22.7 per cent. The number of women occupying posts at the senior Professional level decreased to 12 resulting in a share of 12.5 per cent (not 11.2 per cent as reported by the External Auditor).

39. In future recruitment and re-organization, the Director-General will pay close attention to the issue of women representation in the Secretariat.

III. ACTION REQUIRED OF THE COMMITTEE

40. The Committee may wish to take note of the information contained in the present document.